Australian Federal Budget 2016-17
The numbers game

May 2016

Australian Federal Budget 2016-17

The Federal Treasurer, Mr Scott Morrison, handed down his first budget at 7:30pm (AEST) on Tuesday 3 May. The Budget has three key themes:

- A plan for jobs and growth;
- Addressing specific problems in the tax system so we can sustainably meet Government responsibilities, now and in the future; and
- Making sure that the Government lives within its means, balances the Budget and reduces the burden of long term debt.

The full Budget papers are available at www.budget.gov.au, and the Treasury Ministers' media releases are available at http://ministers.treasury.gov.au/.

Themes	Measures
Measures to promote jobs and growth	Reduction in the company tax rate over ten years to 25 per cent.
Measures to promote the Australian funds management industry	New fund vehicles to be created to attract foreign investors.
Fairness in the tax system: Individuals	Changes to individual tax scales to address bracket creep
Fairness in the tax system: Superannuation	Measures to limit the tax benefits of superannuation contributions at the top end, with further changes to improve the flexibility of the system.
Fairness in the tax system: Multinationals	A range of additional measures to combat multinational tax avoidance, including a Diverted Profits Tax, OECD-compliant transfer pricing and anti-hybrid rules, and a well-resourced Tax Avoidance Taskforce.

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Economic overview: Big ideas, small canvas

Prime Minister Turnbull's aim for an ideas boom took flesh in the just announced 2016-17 Budget, showing up in everything from new incentives to hire unemployed workers through to a re-focussing of tax policy.

Yet although many of these initiatives sound big, they have to be shoehorned into a Federal Budget which is still feeling the after effects of a tumultuous decade.

That decade was one in which a booming China led to a Budget bubble, as the company tax take in particular soared. In turn, that onrush of incoming revenue got rapidly parcelled back out into a range of permanent promises – everything from eight personal income tax cuts in a row through to family benefits, baby bonuses and, more recently, worthy initiatives such as the National Disability Insurance Scheme.

Yet slower growth in China in recent years means that combination of a temporary boom with permanent promises has subsequently led to lingering Budget deficits.

That means the first question that the just released Budget had to answer was whether China's slowdown was still playing havoc with both the Australian economy and the Federal Budget, or whether better recent news from China and in the likes of iron ore prices meant that the Budget bust of recent years had finally bottomed.

There was relatively good news from Treasury on both fronts, though it remains the case that the economic outlook is brighter than the Budget outlook.

Solid news on the economic outlook

Real growth in the Australian economy – GDP – has been relatively modest since the initial bounceback that followed the global financial crisis. In fact there's been only one year of above trend growth in the last eight.

The good news is that Treasury forecasts continuing solid growth, but the bad news is that growth isn't seen at rates above 3 per cent – a rough benchmark of trend – in either the financial year just finishing or that soon to start.

Treasury's forecast for the pace of economic growth in Australia in 2016-17 is above the matching gain projected by Deloitte Access Economics, in part as Treasury thinks the continuing winding down in large scale mining project construction work will take a smaller bite out of economic growth than our own forecasts do. Equally, however, forecasters always differ, and Treasury's view is a respectable one.

But it isn't just the pace of economic growth – how much extra output that Australian businesses and workers will generate – that is important to understanding the economy and the Budget.

A wider and arguably more relevant measure on that front is the pace of national income growth.

As it happens, Treasury doesn't specifically forecast national income growth, but it does set out its views on a close cousin – nominal GDP growth.

In moving from projections of output to those of income, two big economic levers are particularly important – the pace of wage growth, and whether world prices for key Australian exports (such as iron ore, coal and gas) are heading up or down.

Official estimates of the size of the Australian economy – and therefore the key driver of the Budget – are a little less happy than they were. Similarly, these official forecasts of the growth in Australian incomes are also above the matching 2016-17 forecasts of Deloitte Access Economics. Part of that is due to the sunnier outlook on mining-related construction work noted above. But the other key component here is that, whereas we see risks that the recent jump in world commodity prices is linked to a renewed burst of funny money credit growth in Chinese, Treasury is writing in a lasting recovery to the hammering in commodity prices seen in recent years.

Overall, the small downgrade to nominal GDP growth sees the economy end up around $9 billion less in 2017-18, less than expected at MYEFO.

Modest news on the Budget outlook

In turn, key forecasts such as those for national income growth set the economic backdrop for the Budget figuring. And, in brief, the economic news is better than the Budget news.

That's because several factors in play are more important for the Budget than they are for the economy. For example, the continuing pressure on corporate profits is an issue for the Australian economy, but not a big one. However, it looms large in considering the Budget. Indeed, the Budget forecasts now indicate that the company tax take in 2015-16 – the financial year just finishing – will be at the lowest level since 2010-11, during the aftermath of the global financial crisis.

Even more so, the current weakness in wage growth is a double-edged sword for the economy. Wages are a cost to business and an income to families, meaning that weak wage growth is improving Australian business competitiveness at the same time that it is weighing on family finances. On balance, that's probably a small net positive for the economy.

But it isn't a positive for the Budget. There is three times as much tax collected on individuals as personal tax than there is raised via company tax. And wage growth traditionally comes with an 'accelerator effect', pushing people into higher tax brackets. The absence of wage momentum therefore hangs relatively heavily on the Budget outlook. The Treasury expects growth in the wage price index of 2.25 per cent in 2015-16, rising to 2.5 per cent in 2016-17. This is slightly lower than expected in MYEFO, but still more optimistic than Deloitte Access Economics' expectations.

Debts and deficits

That said, the Budget outlook is – as usual – for a return to sunnier conditions.

Having hovered around $40 billion a year for a time, the Budget forecasts that the cash underlying Budget deficit will be on a glide path to better days, with Treasury projecting deficits of $39.9 billion in 2015-16, easing to $37.1 billion in 2016-17, $26.1 billion in 2017-18 and $15.4 billion in 2018-19. Longer term estimates of the elusive date for a return to surplus now pencil in 2020-21.

In turn, that outlook implies a sharp spike in Federal debt, but one that soon subsides again.

Yet, as always, those official forecasts are worth a closer look.

For example, even the official forecasts of the trajectory of debt are enough to see debt-to-income ratios temporarily lifting above rates that have previously seen the Australian Government lose its AAA credit rating. And while the importance of an AAA credit rating is much exaggerated, it will still be worth monitoring what the ratings agencies have to say in the wake of this Budget. After all, the AAA rating doesn't only cut credit costs to the Feds – it does the same for State governments, and arguably also cuts funding costs for business and home mortgage borrowing as well.

In addition, there is a chance that the official forecasts prove too optimistic. That is, after all, the consistent story since China's economy peaked back in 2011.

There are three caveats to the official figures – China, the Senate and the States:

- China's economic transition may yet throw more spanners into the works for Australia's economy and (even more so) it's Budget. Although Chinese growth just took a turn for the better, that is very much the result of a renewed – and huge – lift in borrowings and debt. In fact the latest surge in Chinese credit aggregates is even bigger than what happened there in response to the global financial crisis. That suggests continuing Chinese strength in the short term may come at the cost of great risks in 2017 and beyond;

- Second, don't forget that some of the improving Budget trajectory in the official figures relies on the Senate finally agreeing to a bunch of savings measures that have been blocked before it for several years now. That seems optimistic, particularly in an election year; and
- Third, the largest savings in the Federal Budget in recent years involved pushing a bunch of costs on to the States. We doubt that will be sustainable. Although the States could do better on both taxing and spending than they do, they only have a handful of taxes at their disposal (some of which rank as the most economically damaging taxes in the nation), and the States are in the front line of some pretty big cost pressures in both health and education. That's why it was no surprise that the Federal Government just blinked, handing back extra money for hospitals when those earlier cuts were about to bite.

In turn, if the official deficit forecasts are therefore optimistic, the same will be true of the debt forecasts.

Finally, it is worth noting that the above commentary still comes down to our favourite four word summary of how Australia's Budget got into this mess in the first place: temporary boom, permanent promises.

Although Australia's economy is doing refreshingly well in the circumstances, those four words look set to haunt the Budget for some time yet.

Business tax

Reduction of company tax rates

The Budget outlines a 'ten year enterprise tax plan to support jobs and growth'. A key element of this plan is a reduction in the company tax rate, moving to a 25 per cent rate for all companies by 2026-27.

Currently, the company tax rate is 28.5 per cent for companies with a turnover of less than $2 million, and 30 per cent for all other companies. The ten year plan involves progressively raising the turnover threshold for companies to benefit from the reduced company tax rate, whilst also reducing the rates (applicable to companies above and below the threshold) over time.

Company tax rates	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Small company rate (%)	28.5	27.5	27.5	27.5	27.5	27.5
Small company threshold	$2 m	$10 m	$25 m	$50 m	$100 m	$250 m
All other companies (%)	30.0	30.0	30.0	30.0	30.0	30.0

Company tax rates	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
Small company rate (%)	27.5	27.5				
Small company threshold	$500 m	$1.0 b				
All other companies (%)	30	30				
All companies (%)			27.5	27.0	26.0	25.0

The announcement also states 'franking credits will be able to be distributed in line with the rate of tax paid by the company making the distribution'. Further details are expected to be provided in due course.

The Government notes that Australia currently has the seventh highest company tax rate of the 34 OECD countries, and a rate that is much higher than our Asian neighbours. The intention is that Australia move to the 'middle of the pack' on company tax rates. Whilst this ten year plan is somewhat complicated in its implementation, the trend to a lower tax rate is to be encouraged. However it must be noted that many countries with which Australia is competing on the global stage already have a company tax rate less than 25 per cent, and this downward global trend is expected to continue while significant changes to the Australian rate will not apply for the better part of a decade.

Other measures to encourage small business

As many small businesses are not companies, the Government will from 1 July 2016 also extend the unincorporated tax discount to unincorporated businesses with annual turnover of less than $5 million and increase the discount to 8 per cent, up to a maximum value of $1,000. After the initial increase, the discount will be increased in phases to a final rate of 16 per cent in 2026-27.

From 1 July 2016, all businesses with annual turnover of less than $10 million will have access to:

- Simplified depreciation rules, including immediate tax deductibility for asset purchases costing less than $20,000 until 30 June 2017 and then less than $1,000;
- Simplified trading stock rules, giving businesses the option to avoid an end of year stocktake if the value of the stock has changed by less than $5,000;

- A simplified method of paying PAYG instalments calculated by the ATO, which removes the risk of under or over estimating PAYG instalments and the resulting penalties that may be applied;
- The option to account for GST on a cash basis and pay GST instalments as calculated by the ATO; and
- Other tax concessions available to small business currently, such as the Fringe Benefits Tax (FBT) concessions (from 1 April 2017, the beginning of the next FBT year) and immediate deductibility of professional expenses.

Finalisation of voluntary corporate disclosure code

The Government has confirmed the final details of a new voluntary corporate tax disclosure code based on the recommendation of the Board of Taxation (BOT).

Last year, as part of the 2015-16 Budget, the Treasurer asked the BOT to develop a new voluntary code for greater public disclosure of tax information by businesses, particularly large business. As a result, the BOT issued a consultation paper on a *Voluntary Tax Transparency Code* on 11 December 2015. After consultation the BOT issued its final report to Government in February 2016, and the Government has now released the BOT report.

The Code will encourage businesses with an annual turnover of at least $100 million to publish a range of tax information, including the Australian taxes they pay.

The Government encourages all companies to adopt the Code from the 2016 financial year and onwards.

Collective Investment Vehicles

The Johnson Review[1] and Murray Review[2] both recommended that the Government consider creating new Collective Investment Vehicle (CIV) structures that are more familiar to foreign investors.

In a related development, on 28 April 2016, Assistant Treasurer Kelly O'Dwyer signed the Asia Region Funds Passport's Memorandum of Co-operation (MoC) with Japan, Korea and New Zealand. The Asian funds passport would create a number of benefits, such as growth of skills and employment, wider investment choice, and product offerings providing higher returns for domestic and regional investors, as well as greater economies of scale resulting in cost savings.

The Government has announced that it will create new forms of Australian CIVs for investors to pool their funds with Australian funds managers.

A new Corporate CIV will be available from 1 July 2017. This will allow Australian funds managers to offer investments through a company structure, which is well suited for offering retail investment products. This will be particularly important in encouraging investment from the Asia region.

From 1 July 2018, a Limited Partnership CIV will also be introduced. Such vehicles are commonly used overseas to facilitate wholesale investment by large investors, such as pension funds.

Creating these new structures will encourage foreign investment as well as allow Australia to leverage off the existing strong funds management sector, by exporting funds management services from Australia. Such exports currently represent less than 4 per cent of funds under management in Australia.

[1] Australia as a financial centre: Building on our strengths, Final Report, November 2009
[2] The Financial System Inquiry, Final Report, November 2014

Asset backed financing

Changes will be made to the tax laws affecting asset backed financing arrangements, to give consistent tax treatment with arrangements based on interest bearing loans or investments.

This will give new financing opportunities to Australian businesses looking to start up or expand. It will also support the availability of infrastructure financing because it is well suited to longer-term and large projects.

These changes will apply from 1 July 2018.

Improving integrity for the tax consolidation regime

The budget proposes three changes to address integrity issues and ensure the ongoing effectiveness of the consolidation rules and improve the fairness of the business tax system:

Better targeting the deductible liabilities measure

The Government is introducing a better targeted integrity measure to prevent a consolidated group from obtaining a double tax benefit when an entity joins the group. This measure replaces the 2013-14 Budget measure introduced by the former Government (which would have applied even where no double tax benefit arose in practice, resulting in unfair and potentially costly outcomes) and will apply from 1 July 2016. Importantly, the measures will no longer result in income amounts being brought to account within the first four years following an acquisition and instead eliminate the double tax effect over a longer period of time.

The elimination of the double tax benefit will result in increased revenue. However, modifying the 2013-14 Budget measure results in a cost to revenue of $270 million over the forward estimates period.

Deferred tax liabilities

The Government will amend the tax consolidation regime's treatment of deferred tax liabilities to more closely align commercial and tax outcomes and reduce complexity. In some cases, this mismatch can mean that a commercial benefit that arises as a result of a change in the value of a liability is not taxed.

This measure will apply to transactions from the date amending legislation is introduced in Parliament.

Broadening the securitised asset measure

The Government will extend the 2014-15 Budget integrity measure to also apply to non-financial institutions with securitisation arrangements. The 2014-15 Budget measure was originally targeted at securitisation arrangements within financial institutions.

This measure will apply to transactions that commence on or after 7:30pm AEST on 3 May 2016. Transitional rules will apply to arrangements that commence before this time.

TOFA reforms

The Government has announced its intention to reform the taxation of financial arrangements (TOFA) regime by implementing simplified rules to apply to income years commencing on or after 1 January 2018.

The proposed framework reflects targeted consultation over an extensive period and is expected to remove the majority of taxpayers from TOFA, and will involve four key components:

- A closer link to accounting;
- Simplified accruals and realisation rules;
- A new tax hedging regime which is easier to access and removes the direct link to financial accounting; and
- Simplified and streamlined rules for the taxation of gains and losses on foreign currency.

Division 7A

The Government will consult to develop targeted changes to simplify Division 7A. Subject to the outcomes of consultation, the Government will amend these rules to include:

- A self-correction mechanism providing taxpayers whose arrangements have inadvertently triggered Division 7A with the opportunity to voluntarily correct their arrangements without penalty;
- New safe harbour rules, such as for use of assets, to provide certainty and simplify compliance for taxpayers;
- Amended rules, with appropriate transitional arrangements, regarding complying Division 7A loans, including having a single compliant loan duration of ten years and better aligning calculation of the minimum interest rate with commercial transactions; and
- Technical amendments to improve the overall operation of Division 7A.

The changes are expected to commence from 1 July 2018.

Improving tax system governance

The Government will introduce dedicated Regulatory Reform Bills into Parliament to regularly update and improve tax laws. Matters for inclusion in these Bills will be sourced from various places including the recently launched BOT Sounding Board.

These Bills will include various regulatory reforms that will seek to reduce the compliance burden of tax laws and ensure they operate as intended.

The Government is also committed to involving tax experts in the development of better tax policy and law design. The Government will draw on the capabilities of these experts by involving them more closely in selected tax policy and law design projects.

The Government is also supporting recent new practices from the ATO, including the publication of Law Companion Guidelines. To reduce the need for lengthy provisions in the tax law, the Government will support the ATO to produce public guidelines on the meaning of new tax laws at the same time as they are being drafted. These guidelines will be published as the legislation is introduced to Parliament. The guidelines will not have the same formal legal status as legislation but they will provide certainty to taxpayers in how they can comply with the new law.

Multinational tax

The combined impact of the OECD Base Erosion and Profit Shifting (BEPS) program, the Senate Inquiry into corporate tax avoidance, a very public tax reform debate together with intense media interest has resulted in a changed expectation of multinationals in relation to transparency and tax planning, and an increased community expectation of the regulators to take a harder line in dealing with tax avoidance.

The Government has strongly supported the international developments through its leadership of the G20 and via the OECD BEPS Agenda. In addition, Australia has moved on a number of fronts in recent years: including new transfer pricing rules, tightening the thin capitalisation rules, and in December 2015, the Multinational Anti-Avoidance Law (MAAL) was enacted.

Even though the BEPS final reports were released in October 2015, the political pressure to address BEPS and tax avoidance more generally is still significant. And so it is no surprise that in this year's Budget, a raft of new multinational tax measures have been announced.

A new diverted profits tax

When then Treasurer Hockey met with the UK Chancellor in Washington DC in April 2015 to announce 'the urgent establishment of a joint working group to further consider and develop initiatives in relation to diverted profits by multinational enterprises', that set in train the process that led to the MAAL, as announced in the 2015-16 Federal Budget. The MAAL is similar to the first limb of the UK diverted profits tax (DPT).

This year's Budget extends the focus on diverted profits by adopting a measure based on the second limb of the UK DPT. The Government has released a Consultation Paper and is seeking submissions by 17 June 2016.

The Australian DPT will commence on 1 July 2017 and is a tax, at 40 per cent, applicable to significant global entities (turnover of $1 billion or more) using artificial or contrived arrangements to reduce tax by diverting profits offshore.

The Australian DPT will:

- Impose tax at 40 per cent on profits transferred offshore through related party transactions with insufficient economic substance, that reduce the tax paid on the profits generated in Australia by more than 20 per cent;
- Apply where it is reasonable for the ATO to conclude based on then available information that the arrangement is designed to secure a tax reduction;
- Provide the ATO with more options to reconstruct the alternative arrangement on which to assess the diverted profits;
- Impose a liability when the ATO determines that the DPT applies;
- Require upfront payment of any provisional DPT liability, which can only be adjusted following a successful review of the assessment; and
- Put the onus on taxpayers to provide relevant and timely information on offshore related party transactions to the ATO to prove why the DPT should not apply.

The DPT is estimated to have a gain to revenue of $100 million per year from 2018-19.

The DPT builds on Australia's existing measures including strong transfer pricing rules. It is expected that this will increase compliance by multinationals, encourage greater openness with the ATO, address information asymmetries and allow for speedier dispute resolution.

The MAAL and the DPT are expected to raise around $650 million over four years.

Moving on BEPS: anti-hybrid changes

In May 2015, the Government announced that the BOT would consult on the implementation of anti-hybrid rules in accordance with the OECD's recommendations under Action 2 of the BEPS project. The terms of reference included a request that the BOT report to the Government by March 2016 'to allow this issue to be considered as part of the 2016 Budget'. The Government has now released the BOT report and confirmed that Australia will introduce anti-hybrid rules, modelled on the OECD BEPS recommendations, with effect from 1 January 2018, or after the legislation is passed.

Australia is one of the 'first wave' of countries adopting anti-hybrid rules. Taxpayers in Australia will need to continue monitoring the changing legislative framework of countries in which they do business, to accurately assess how Australia's rules will interact with those of foreign jurisdictions and the related impact on the tax outcomes arising under their financing arrangements.

The proposed rules are expected to impact the tax outcomes arising from a number of commonly used financing approaches in Australia. Taxpayers should consider the potential application of the rules to their financing structures and the associated tax, financial reporting, legal and treasury issues which may arise – including the potential need to refinance existing structures. The BOT report also notes the potential for Australia's general anti-avoidance rule (Part IVA) to apply to 'artificial or contrived' replacement structures.

Transfer pricing: new OECD guidelines

The Government will amend the tax legislation to ensure Australia's transfer pricing rules are consistent with the new OECD guidelines arising from the BEPS project, with effect from 1 July 2016. The Government notes that the 'new rules will make clearer how intellectual property and other intangibles can be priced and that it is the substance rather than the contractual form of a transaction that forms the basis of taxable activity'.

The measure has an unquantifiable gain to revenue.

A new regime for disclosure

The Government wants to improve disclosure of taxpayer information to the ATO, and will develop new rules requiring tax and financial advisors to report potentially aggressive tax planning schemes.

A Treasury Discussion Paper called 'OECD proposals for mandatory disclosure of tax information' has been released: submissions are due by 15 July 2016.

Increased penalties

The Government will increase a range of maximum penalties for groups with global income of $1 billion or more (significant global entities) including failing to lodge on time tax returns, business activity statements, country-by-country reports and similar tax documents. The new penalties may be up to $450,000 and will apply from 1 July 2017. The quantum of these penalties represents an increase by a factor of 100 on previous rules.

Penalties for false and misleading statements made to the ATO will also be doubled.

These new penalties will send a clear message that the Government will not tolerate inaccurate or delayed tax reporting.

New protection for tax whistleblowers

From 1 July 2018, new whistleblower protections will apply to people who disclose information about tax misconduct to the ATO. The new arrangements will protect tax whistleblowers against identity disclosure, victimisation and civil and criminal action for disclosing information.

A new Tax Avoidance Taskforce

The Government has released further details on a new Tax Avoidance Taskforce. The new Taskforce was first announced on 3 February 2016 by the Assistant Treasurer Kelly O'Dwyer, with the aim to reassure the Australian public that the 'businesses operating in Australia are paying their fair share of tax on the economic activity taking place in Australia'.

Key aspects of the new Taskforce include:

- Additional funding of $679 million over four years for the ATO. The Taskforce will have a team of approximately 1,300 people including 390 new specialised officers;
- The Commissioner of Taxation will lead the Taskforce;
- The Commissioner will provide regular progress reports to Government, the first due by the end of this year;
- External experts, including former judges will support the Taskforce and review proposed settlement arrangements;
- The Taskforce will play a critical role in implementing the BEPS recommendations; and
- The ATO will test various tax avoidance issues through the Courts.

The Taskforce will have stringent reporting requirements to the Government and to the public on its achievements and progress.

The Taskforce is expected to provide international leadership in its approach to cracking down on multinational tax avoidance. It is expected that the new specialised officers will include expanded skill sets to fully exploit the significant levels of information and data available to the ATO.

The Taskforce will target multinationals and high wealth individuals, and is expected to raise more than $3.7 billion between now and 2020.

Superannuation

The purpose of superannuation

The Murray Review[3] recommended that the Government seek broad political agreement for, and enshrine in legislation, the objectives of the superannuation system and report publicly on how policy proposals are consistent with achieving these objectives over the long term.

In October 2015, the Government announced that it would develop legislation to enshrine the objective of superannuation, as part of its response to the Murray Review.

As a result, the government will prescribe the objective for superannuation as follows: to provide income in retirement to substitute or supplement the Age Pension.

A series of changes will be introduced to better target the superannuation tax concessions. The key elements of the more sustainable superannuation system are outlined below.

Extension of the superannuation surcharge to high income earners

From 1 July 2017, the Government will extend the 30 per cent tax for concessional contributions made on behalf of individuals with income, for surcharge purposes, over $250,000.

This additional contributions tax (Division 293) has previously only applied to individuals with income greater than $300,000 so will affect a broader group than before. This measure aims to address the larger effective tax benefit that high income earners receive on making pre-tax contributions to superannuation as compared with lower income earners.

Limiting excess balances

Concessional contributions

The Government has lowered the annual concessional contributions cap from 1 July 2017 to $25,000.

Broadly, this cap refers to the amount that can be contributed as a Superannuation Guarantee contribution together with any salary sacrifice amounts.

Non-concessional (after-tax) contributions

Currently taxpayers may make after-tax contributions of up to $180,000 a year (or $540,000 every three years). This contribution is neither tax deductible to the taxpayer nor assessable in the fund.

With effect from 3 May 2016, this will be replaced by a lifetime cap of $500,000 for non-concessional contributions.

Transition to retirement income streams

With effect from 1 July 2017, the Government will remove the tax exemption on income streams of individuals over preservation age but not retired. It will also remove a rule treating certain superannuation income stream payments as lump sums for tax purposes.

[3] *The Financial System Inquiry*, Final Report, November 2014

Fairness for low income earners

The low income superannuation contribution (LISC) was introduced for the 2012-13 financial year and was aimed at assisting low-income earners save for their retirement. The LISC will be replaced by a new low-income superannuation tax offset, to ensure that low-income earners do not pay more tax on super contributions than on ordinary income.

Enhancing flexibility and choice

Greater flexibility and choice will be built into the superannuation system, for example:

- People under 75, and with superannuation balances below $500,000, will be able to claim tax deductions up to the concessional cap;
- Unused concessional caps can be carried forward for people with superannuation balances below $500,000; and
- Tax barriers to the development of new products will be removed by extending the tax exemption on earnings in the retirement phase to products such as deferred lifetime annuities and group self-annuitisation products.

Improve integrity

A limit of $1.6 million will be introduced on the amount that can be transferred into the retirement phase. This will limit the extent to which the tax free benefits of retirement phase accounts can be used by high wealth individuals.

Individuals

To address some concerns around bracket creep, the Government announced that from 1 July 2016, the Government will adjust the second top tax bracket (marginal tax rate of 37%); raising the threshold from $80,000 to $87,000.The policy objective is that those earning average wages should stay in the middle tax bracket.

Personal tax rates

Current rates	Rate	New thresholds
0 – $18,200	Nil	0 – $18,200
$18,201 – $37,000	19 per cent	$18,201 – $37,000
$37,001 – $80,000	32.5 per cent	$37,001 – $87,000
$80,001 – $180,000	37 per cent	$87,001 – $180,000
$180,001 and over	45 per cent	$180,001 and over

Note: The above rates do not include the:

- Medicare levy of 2 per cent
- Temporary Budget Repair Levy of 2%

Other

Promoting health by reducing smoking

The Government will implement a further four annual 12.5 per cent increases in tobacco excise and excise equivalent customs duties, with the first increase to take effect on 1 September 2017. This will replicate the annual increases that have been in place for the past four years.

The Government will also limit the duty free tobacco allowance in Australia to 25 cigarettes or equivalent, which will take effect from 1 July 2017.

The tobacco taxation changes are expected to raise $4.7 billion in net revenue over the next four years.

Wine equalisation tax

The Government will address integrity concerns with the wine equalisation tax (WET) rebate and better target support by reducing the WET rebate cap and tightening eligibility criteria. The Government will also provide more support for export and regional wine growers.

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